

Overview

Brazil has a large and diversified economy that offers US companies many opportunities to export their goods and services. As Brazil's largest single trading partner, the US enjoys a strong reputation in a variety of sectors. This report is one of a series that is published by the US Commercial Service's team of sector experts throughout the year. We believe that Brazil's Northeast offers US companies an excellent opportunity to do business with Brazil. If you do not see an opportunity for your product or service here, please check out our other reports and consider contacting us directly to find out if we can help you export to Brazil.

Brazil's Northeast

Brazil's Northeast is a physically beautiful and culturally rich region that is relatively unknown to Americans. This is strange considering that the United States has had an extremely strong historical link with the region. During WWII, for example, the US Air Force had a major base in the Northeastern city of Natal, in the state of Rio Grande do Norte. The base was located in the city of Natal due to its close proximity to the coast of Africa.

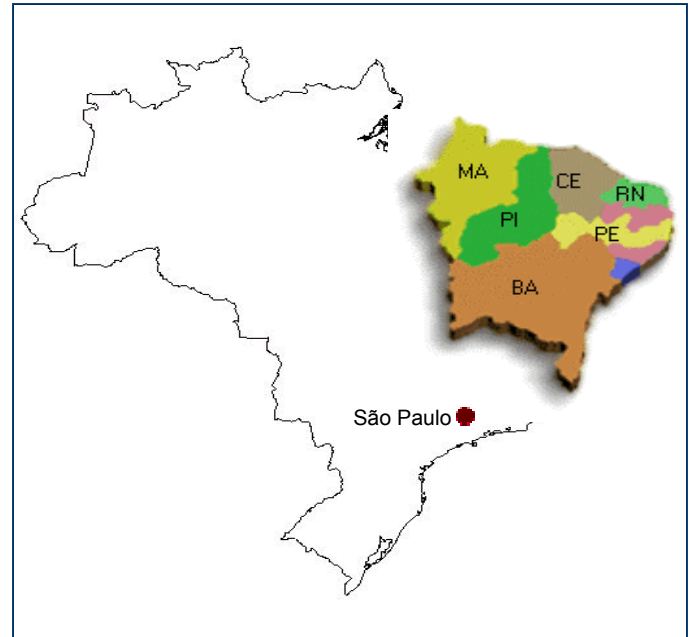
Beyond its fascinating history, the region is experiencing significant economic growth, and as such represents an excellent opportunity for American exporters. Over the past 25 years, the region has had GDP growth rates well in excess of those of Brazil. Between 1980 and 1990, the Northeast's GDP averaged 3.47% per annum, more than double that of Brazil's average annual growth of 1.66%. Likewise, from 1990 to 2000, Brazil's Northeast grew on average 3.1%, well in excess of Brazil's average annual GDP growth rate of 2.51%.

Based on a variety of sources, CS Brazil estimates that the U.S. is still the largest single exporter to the region. In 2004, for example, we estimate that the U.S. accounted for approximately 13% of the region's imports.

The United States also continues to be the largest single importer of goods and services from the Northeast. In 2003, we estimate that the U.S. imported approximately US\$ 2.1 Billion in goods from the Northeast.

Despite the Northeast's close geographic proximity to the U.S., the European Union is making ever-greater inroads into the Northeast. U.S. challenges in increasing and solidifying economic relations with Brazil's Northeast are made difficult by the fact that there are no daily nonstop flights from any U.S. city to this region.

Accordingly, in order to travel from the United States to the Northeast or from the Northeast to the U.S., travelers must fly through Brazil's southeastern city of São Paulo. To put this in perspective, someone traveling from Natal to the US must first fly 2,947 kilometers south-west to São Paulo before flying north to the U.S. This, when Natal is only 5,965 kilometers to Miami.



Brazil's Northeast has a population of 54 million people, nearly 15% of South America's total. Nevertheless, there are no daily nonstop flights to the US and travelers must fly from between 1,900 to 3,000 km to catch connecting flights to the US from São Paulo. Alternatively, Northeasterners can visit a number of European cities on a variety of daily nonstop flights.

The trouble is further exacerbated by the fact that frequently, someone traveling from the more northern states of the northeast must first fly through Salvador da Bahia to get to São Paulo. Ultimately, someone traveling from Fortaleza frequently may have to fly first to Recife, then Salvador da Bahia and then São Paulo. Ultimately, a trip to the U.S. can last from 20 to 30 hours door-to-door.

The purpose of this report is therefore two-fold. First, this report will provide an overview of the economies of the four largest states of the region; those being (from north to south) the states of Ceará, Rio Grande do Norte, Pernambuco and Bahia. The overview of each state's economy will include indications of the goods and services that present "best prospects" for U.S. exporters seeking new markets. As well, an overview of the direct air links to Europe will also be discussed to provide an indication of the demand for these direct links which are spurring increased economic growth between the Northeast and Europe, highlighting the need for similar links to the U.S. to strengthen and improve economic relations with the region.

Three of the World's 100 Largest Cities

Brazil's Northeast is a region comprised of 9 states and has a population of approximately 54 million people. The region has three of the world's 100 largest cities, those being (from north to south) Fortaleza, Recife and Salvador. Each of these cities has its own distinct character and economy.

Fortaleza

Fortaleza, a city of approximately 3.09 million people is the capital of the state of Ceará. Fortaleza is the 94th largest metropolis in the world. The state has a dynamic and growing economy and is the world's largest exporter of both roses and cashew nuts. The city is geographically the closest of the three to the United States and flying time to Miami would be approximately 8 hours if there were a direct flight.

Recife



Recife's Historic District
Source: Imago Fotografica

Recife, with a population of 3.41 million, is the region's most populous city and is currently the 80th largest metropolis in the world. It is the capital of the state of Pernambuco.

The state also has a growing and dynamic economy and it will soon be home to one of the largest oil refineries in South America whose construction was announced in late 2005. Recife has been referred to as the Amsterdam of South America both because it was, for a time, a Dutch possession and also because the Dutch constructed it with canals, somewhat reminiscent of Amsterdam.

Salvador da Bahia

Salvador, with a population of 3.18 million, the 92nd largest city in the world. It is the capital of the state of Bahia and was formerly the capital of colonial Brazil. It is a region rich in both culture and it has the sixth largest GDP of all of Brazil's 27 states.

Ceará

The state of Ceará has a land area of 146,348 Km² and has a population of 7.7 million (2002). With a GDP of US\$8.5 billion (2002) its GDP per capita is US\$1,104.

The most important sectors of its economy are as follows:

- ➔ Agriculture, with cashew nuts, flowers, and fruits being the most important crops.
- ➔ Tourism.

- ➔ Fishing.
- ➔ Textiles, apparel, and footwear industry.

Ceará Exports

Exports (FOB) totaled US\$ 930 million in 2005 up from US\$859 million in 2004.

Main products exported in 2004 were:

- ➔ Footwear: US\$183 million.
- ➔ Cashew nuts: US\$142 million.
- ➔ Textiles: US\$128 million.
- ➔ Leather products (other than shoes): US\$117 million.
- ➔ Fish and crab: US\$105 million.
- ➔ Tropical fruits: US\$42 million.

Main Export Destinations:

- ➔ U.S.A.: 33.54%.
- ➔ European Union: 24.66%.
- ➔ Other South American Countries: 21.27%.

Ceará Imports

Imports (FOB) totaled US\$574 million in 2004 up from US\$541 in 2003.

Main items imported in 2004 were:

- ➔ Industrial Supplies (parts/components and raw materials): 62%.
- ➔ Capital Goods: 10%.

The most important single items imported were:

- ➔ Diesel oil: US\$ 124 million.
- ➔ Wheat: US\$ 90 million.
- ➔ Raw materials for the textile industry: US\$ 75 million.

The largest importers in Ceará in 2004 were Petrobras (US\$133 million) Vicunha Textil (US\$60 million), and M.Dias Alimentos (US\$52 million).

Main suppliers in 2004:

- ➔ U.S.A.: 13%.
- ➔ European Union: 22%.
- ➔ Other South American Countries: 30%.

Rio Grande do Norte

The state of Rio Grande do Norte has a land area of 53,307 Km² and has a population of 2.861 million (2002). The state's total GDP in 2002 was US\$ 4.0 billion with a GDP per capita of US\$ 1400.

The most important sectors Rio Grande do Norte's economy are:

- ➔ Oil. The state produces 100,000 barrels/day.
- ➔ Tourism.
- ➔ Agriculture, especially tropical fruits (particularly watermelon, cashew and mango).

- ➔ Salt (produced from salt water as opposed to mined). The state produces 5 million tons/year which represents 85% of Brazil's total salt production.
- ➔ Fishing.
- ➔ Textiles and clothing.

Rio Grande do Norte Exports

Exports (FOB) totaled US\$ 573.6 million in 2004 up from US\$ 310.4 million in 2003.

Crude oil accounts for nearly 50% of this state's exports. The other main products exported in 2004 were fish (US\$ 96 million) and fruit (US\$108 million).

The state's largest single exporter in 2004 was Petrobras, with total annual exports of US\$284 million.

The state's main export destinations were:

- ➔ U.S.A.: 21.31%.
- ➔ European Union: 24.74%.
- ➔ Other Countries in S.A.: 20%.

Rio Grande do Norte Imports

Imports (FOB) in 2004 were US\$ 139 million down from US\$ 169 in 2003.

The most important single import item is wheat, accounting for US\$20 million in 2004.

The largest single importer in Rio Grande do Norte is also Petrobras, which imported US\$29 million in 2004.

In 2004, 19.31% of total imports came from the U.S., 31.78% from the EU, and 27% from other countries in South America.

Pernambuco



Sugar Warehouse

The state of Pernambuco has a total land area of 98,938 km² and a total population 8.1 million people (2002). The state's GDP was US\$12.5 billion in 2002 giving it a per capita GDP of US\$ 1,543.

The most important sectors of the economy are as follows:

- ➔ Agriculture, especially sugar-cane plantations and the related production of alcohol and sugar.
- ➔ Agriculture, especially tropical fruit.
- ➔ Tourism.
- ➔ Fishing.
- ➔ Mineral extraction. In particular, gypsum (1.8 million tons processed gypsum/year) which equals 95% of Brazil's total gypsum output.
- ➔ Agriculture, cattle, poultry, pork production.



Brazilian Grapes: An important new crop for the Northeast, based around the São Francisco River Valley.

- ➔ Wine. Grapes have become an important new crop, despite the regions tropical climate. Wine has become an important new sector and is experiencing strong growth in Pernambuco. Current output is 5 million liters/year (15% of Brazilian total), and expected to reach 30 million/year by 2015.

Pernambuco Exports

Exports (FOB) were US\$ 785 million in 2005 up from US\$ 517 million in 2004.

Pernambuco's main export products are (2004 figures):

- ➔ Sugar: US\$ 154 million.
- ➔ Tropical fruit: US\$ 52 million.
- ➔ Raw fish: US\$ 27 million.

Pernambuco's main export destinations are:

- ➔ U.S.A.: 19.61%.
- ➔ E.U.: 21.94%.
- ➔ Other countries in S.A.: 16%.

Pernambuco Imports

Pernambuco's imports (FOB) in 2005 were US\$443 million down from US\$758 in 2004.

Main import items were:

- ➔ Industrial supplies: 60%.
- ➔ Fuels and lubricants: 17%.
- ➔ Capital goods 11%.

The most important single import item is wheat (for further industrial processing), totaling US\$79 million in 2004.

The largest importer in Pernambuco is Petrobras, which imported US\$111 million in 2004.

Main suppliers in 2004 were:

- ➔ U.S.A.: 20.54%.
- ➔ E.U.: 22.71%.
- ➔ Other S.A.: Countries: 35%.

Bahia

The state of Bahia has a total land area of 567,000 km² and a total population of 13.5 million inhabitants (2002). Bahia's GDP in 2002 was US\$22 billion, with a GDP per capita of US\$ 1,630.

The most important sectors of the economy are:

- ➔ Oil extraction (1.4 million barrels/month).
- ➔ Petrochemical production (50% of total Brazilian output).
- ➔ Tourism.
- ➔ Automotive: Ford started up a new factory in Salvador in 2001 that is currently running at full capacity with an output of 250,000 passenger vehicles/year.
- ➔ Auto parts: Ford suppliers have invested upwards of US\$ 700 million in manufacturing facilities in Salvador; others are following, including Bridgestone and Continental, which are building tire factories near Ford.
- ➔ Mining: magnesite (335,000 tons/year in 2004), copper refining (74,000 tons/year), gold (2,700 kg of gold metal/year), uranium (270 tons/year), quartz, marble, granite.
- ➔ Pulp and Paper.
- ➔ Fishery.
- ➔ Agriculture: tobacco, cacao, coffee, grains, fruits.

Bahia Exports

Bahia's exports (FOB) were US\$ 5.99 billion in 2005 up substantially from US\$ 4.063 billion in 2004.

The state's main export products in 2004 were:

- ➔ Fuels and lubricants: US\$ 667 million.
- ➔ Fuel oil: US\$422 million.
- ➔ Automobiles: US\$ 607 million.
- ➔ Copper wires and bars: US\$ 219 million.
- ➔ Gold bullion: US\$ 42 million.
- ➔ Agricultural products: US\$ 386 million, especially fish, cacao, coffee and fruits. Fruit exportation is experiencing significant growth in Bahia. The state exported US\$ 120 million worth in 2005, an increase of 50% in value and 26% in weight, compared to 2004. Increases were realized from grape, mango and papaya exports. These products come from an irrigated area of the São Francisco River Valley. The region only started exporting in the late 1980s. Grapes make up nearly 50% of the exported value, mango 36%, and the rest is papaya, guava, pineapple, coconut, and a few other minor crops.

The main exporters in the state are:

- ➔ Ford: US\$637million ('04), up from \$394 million ('03).
- ➔ Petrobras: US\$ 560 million.
- ➔ Braskem Petrochemical: US\$323 million.
- ➔ Caraíba (copper refining): US\$243 million.
- ➔ Bunge (grains): US\$231 million.



Ford has become one of the region's largest exporters.

Main export destinations are the U.S. (25.42%), E.U. 23.66% and other S.A. countries (31%).

Bahia Imports

Imports (FOB) in 2004 were US\$ 3.0 billion up from US\$ 1.95 billion in 2003.

Main import items in 2004 were:

- ➔ Industrial Supplies: 37%.
- ➔ Capital Goods: 18%.

The most important single import items are:

- ➔ Copper ore (for refining): US\$ 464 million.
- ➔ Petrochemical raw materials: US\$ 391 million.
- ➔ Oil: US\$ 301 million.
- ➔ Auto-parts and vehicles: US\$ 295 million.
- ➔ Fertilizers: US\$ 105 million.
- ➔ Coal US\$ 46 million.

The main individual importers are:

- ➔ Braskem Petrochemical: US\$ 552 million.
- ➔ Caraíba: US\$ 466 million.
- ➔ Ford: US\$ 376 million.
- ➔ Petrobras: US\$ 202 million.
- ➔ Monsanto: US\$ 59 million.
- ➔ Bunge (fertilizers): US\$ 45 million.

Main import suppliers by country in 2004 were:

- ➔ U.S.A.: 10.9%.
- ➔ E.U.: 17.5%.
- ➔ Other S.A. countries: 32%.
- ➔ Africa: 21%.

Current Travel between the United States and Brazil's Northeast

In 2002, Americans made more than 30,000 trips to the Northeast and Northeasterners made approximately 50,000 trips to the United States. Despite extremely long travel times due to the need to connect in São Paulo, the Consulate in Recife, which provides consular services to Brazil's entire Northeast, has been receiving record numbers of visa interview requests. Requests for interviews have increased 50% from 2004 to 2005. Furthermore, the U.S. Consulate in Recife is currently granting, on average, approximately 1,500 visa's each month to Northeasterners seeking to travel to the US.

Non-stop Flights to U.S. compared to Europe

As indicated previously, there is only one non-stop flight from Brazil's northeast to the United States. This is a once weekly flight from Salvador to Miami, operated by Tam that departs on Sunday. Tam is one of Brazil's largest airlines. Varig, Brazil's flagship carrier, does not currently have any non-stop flights from Brazil's Northeast to the U.S. Alternatively, there are a plethora of non-stop flights from Brazil's Northeast to a variety of cities in Europe.

At the date of this publication, we calculate that Brazilian and European carriers operate approximately 37 Weekly flights to Europe from Brazil's Northeast:

TAP (Portugal) and Varig (Brazil) Codeshare →

26 weekly codeshare flights, from Natal (5), Fortaleza (7), Recife (7) and Salvador (7) to Lisbon, Portugal. Representatives from TAP informed us that these flights are flying at capacity.

Tam Airlines (Brazil) →

One weekly non-stop flight from Recife to Paris.

Finnair →

Two weekly flights from Recife to Helsinki, Finland.

Livingston (formerly Lauda Italia) →

Three weekly flights to Milan, Italy, departing Recife, Fortaleza and Maceio.

AirItaly →

One weekly flight from Recife to Rome, Italy.
One weekly flight from Fortaleza to Rome, Italy.

Euroatlantic →

Three weekly flights from Recife to Lisbon, Portugal.

Flights from Brazil to the United States

For Brazilians seeking to travel to the United States there are currently a total of approximately 140 weekly flights available, although only 1 weekly flight from the Northeast.

Four U.S. carriers have a total of 103 weekly flights:

American Airlines →

47 weekly flights to U.S., divided into: 3 daily flights São Paulo / Miami; one daily flight Rio / Miami, one daily flight São Paulo / Dallas, 5 days a week; and one São Paulo / New York.

United Airlines →

21 weekly flights to U.S.: one Rio de Janeiro / São Paulo / Washington flight, one São Paulo / Washington flight and one São Paulo / Chicago daily flight.

Continental Airlines →

14 weekly flights to U.S.: one daily São Paulo / New York, and one daily Rio / São Paulo / Houston.

Delta Airlines →

21 weekly flights to U.S.: two daily São Paulo / Atlanta and one daily Rio / Atlanta.

Two Brazilian Airlines have daily flights to the U.S. totaling 37 weekly flights from Brazil:

Tam Airlines →

19 weekly flights to U.S.: two daily São Paulo / Miami flights, and one São Paulo / New York flight 4 days a week, and a once a week flight Salvador / Miami departing on Sunday.

Varig Airlines →

18 weekly flights to U.S., and 4 additional weekly flights from December 2005 to March 2006, during Brazil's summer vacation and Carnival.

Resources

For more information about export opportunities to Brazil's Northeast, contact US Commercial Service Trade Specialist Vania Resende at:

vania.resende@mail.doc.gov

For additional reports on export opportunities to Brazil visit the US Commercial Service's Market Research Worldwide:

<http://www.export.gov/marketresearch.html>

Additional information on traveling to and from Brazil can be obtained at:

- The Brazilian Tour Operators Association:
www.braztoa.com.br
- The Brazilian Travel Agencies Association (ABAV):
www.abav.com.br

To the best of our knowledge, the information contained in this report is accurate as of the date published. However, The Department of Commerce does not take responsibility for actions readers may take based on the information contained herein. Readers should always conduct their own due diligence before entering into business ventures or other commercial arrangements. This report was written by Trade Specialist Vania Resende, US Commercial Service in Belo Horizonte.

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